

**LEWIS COUNTY SCHOOL DISTRICT
BOARD OF EDUCATION**

**FINANCIAL REPORT
JUNE 30, 2003**

**Lewis County School District
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For the Year Ended June 30, 2003**

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Lewis County Board of Education
Vanceburg, Kentucky

We have audited the accompanying basic financial statements of the Lewis County School District (the "District") as of June 30, 2003, and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion of these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements in Appendix I to the *Independent Auditor's Contract – General Audit Requirements* and Appendix II to the *Independent Auditor's Contract – State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This results in a change in the format and content of the basic financial statements.

In our opinion, the basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2003, and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 18, 2003 on our consideration of Lewis County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards contained on page 36 and 37 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Additionally, the data contained on pages 32 through 35 is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial

statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Reynolds & Company
Certified Public Accountants

Portsmouth, Ohio
August 18, 2003

**LEWIS COUNTY PUBLIC SCHOOL DISTRICT – VANCEBURG/KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Lewis County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the General Fund was \$1,316,987.
- The Board didn't issue any new bonds in fiscal 2003, but did begin preliminary work to the Lewis County Middle School Renovation and Addition Project.
- During fiscal 2003, the district felt little impact of the declining economy other than the reduction in interest income. We anticipate flat to slightly falling revenue in fiscal 2004.
- For fiscal 2004 The Board approved a \$1,080 increase to all cells of the certified salary schedules and a 2.7% increase to all cells of the classified salary schedules. These increases are in addition to the routine step increase in salary that employees receive for the year of service performed in fiscal 2003.
- The General Fund had \$10,892,371 in revenue, which primarily consisted of the state program (SEEK), property taxes, utility taxes, and motor vehicle taxes. Excluding inter-fund transfers, there was \$11,349,851 in General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government –wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental or proprietary funds. The District's only proprietary fund is food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9-14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 19-31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,389,015 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2003

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader however the district looks forward to offering comparative data in the future.

Current Assets	\$ 1,672,345
Noncurrent Assets	<u>12,549,116</u>
Total Assets	\$ 14,221,461

Current Liabilities	\$ 1,577,305
Long-Term Liabilities	<u>10,255,141</u>
Total Liabilities	\$ 11,832,446

Total Net Assets	<u>\$ 2,389,015</u>
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In fiscal 2003 the District implemented GASB 34 and recorded fixed assets and debt for the first time, so the Statement of Net Assets is significantly different than those of prior years.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2003, net of inter-fund transfers, were \$16,762,888.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$63,395 less than budget or approximately .06%.

The following table presents a summary of the general fund's revenues and expenses for the fiscal year ended June 30, 2003.

	<u>Amount</u>
Revenues:	
Local revenue sources	\$ 1,773,164
State revenue sources	9,112,927
Federal Revenue	6,280
Other Sources	<u>1,595</u>
Total revenues	\$ 10,893,966
Expenses:	
Instruction	\$ 5,949,824
Student Support Services	571,356
Instructional Support	262,163
District Administration	696,985
School Administration	784,247
Business Support	101,047
Plant Operations	1,189,323
Student Transportation	1,214,725
Central Office Support	89,153
Other	<u>617,640</u>
Total expenses	\$ 11,476,463
Expense in Excess of Revenue	<u>(\$ 582,497) *</u>

* The board authorized expenditures of prior year reserve to address renovation and construction needs.

General Fund Revenue

The majority of revenue was derived from state funding (83.66%) with locally generated revenues making up 16.28% of total revenue.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$488,828 in contingency (4%). The beginning cash balance for beginning the fiscal year is \$966,196. Significant Board action that impacts the finances includes the previously mentioned pay raises for all employees.

The Lewis County School District's current and estimated federal grant notifications are not anticipated to make a year-to-year material impact upon the remaining funds. Award notifications and estimates are fairly in line with budgeted amounts and amounts received in prior years.

Questions regarding this report should be directed to Joe Kennedy, Finance Officer/Treasurer at (606) 796-2811 or by mail at P.O. Box 159 Vanceburg, KY 41179.

Lewis County School District
Statement of Net Assets
June 30, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
<u>Current Assets</u>			
Cash and Equivalents	\$ 682,657	\$ 181,572	\$ 864,229
Accounts Receivable			
Taxes	50,809	-	50,809
Intergovernmental - state	706,103	13,747	719,850
Inventories	-	29,524	29,524
Bond issue costs	7,933	-	7,933
Total current assets	1,447,502	224,843	1,672,345
<u>Noncurrent Assets</u>			
Capital Assets	20,842,553	367,517	21,210,070
Less: Accumulated Depreciation	(8,382,957)	(277,997)	(8,660,954)
Total Noncurrent Assets	12,459,596	89,520	12,549,116
Total Assets	<u>13,907,098</u>	<u>314,363</u>	<u>14,221,461</u>
LIABILITIES			
<u>Current Liabilities</u>			
Accounts payable	70,842	14,213	85,055
Deferred Revenues	439,524	-	439,524
Interest payable	79,682	-	79,682
Current portion of bond obligations	590,000	-	590,000
Current portion of capital lease obligations	161,979	-	161,979
Current portion of accrued sick leave	221,065	-	221,065
Total current liabilities	1,563,092	14,213	1,577,305
<u>Noncurrent Liabilities</u>			
Non current portion of bond obligations	8,640,000	-	8,640,000
Noncurrent portion of capital lease obligations	941,933	-	941,933
Noncurrent portion of accrued sick leave	673,208	-	673,208
Total noncurrent liabilities	10,255,141	-	10,255,141
Total liabilities	<u>11,818,233</u>	<u>14,213</u>	<u>11,832,446</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,125,864	89,520	2,215,384
Restricted for:			
Capital projects	10,645	-	10,645
Debt Service	-	-	-
Other projects	37,883	-	37,883
Unrestricted	(85,527)	210,630	125,103
Total net assets	<u>\$ 2,088,865</u>	<u>\$ 300,150</u>	<u>\$ 2,389,015</u>

See independent auditors' report and accompanying notes to financial statements.

**Lewis County School District
Statement of Activities
For the Year Ended June 30, 2003**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital Grants	Governmental	Business-type	Total
		Services	Grants and	and	Activities	Activities	
			Contributions	Contributions			
Governmental Activities:							
Instruction	\$ 10,075,403	\$ -	\$ 3,177,452	\$ -	\$ (6,897,951)	\$ -	\$ (6,897,951)
Support Services:							
Student	606,963	-	-	-	(606,963)	-	(606,963)
Instruction Staff	284,676	-	1,159	-	(283,517)	-	(283,517)
Direct Administrative	859,703	-	128,184	-	(731,519)	-	(731,519)
School Administrative	1,151,297	-	283,340	-	(867,957)	-	(867,957)
Business	109,742	-	-	-	(109,742)	-	(109,742)
Plant Operation and Maintenance	1,251,236	7,535	24,985	-	(1,218,716)	-	(1,218,716)
Student Transportation	1,242,411	-	-	-	(1,242,411)	-	(1,242,411)
Central Office	97,289	-	-	-	(97,289)	-	(97,289)
Facilities Acquisition and Construction	829,226	-	-	967,248	138,022	-	138,022
Community Service Activities	301,495	-	290,781	-	(10,714)	-	(10,714)
Other	307	-	-	-	(307)	-	(307)
Interest on Long-term debt	504,741	-	-	-	(504,741)	-	(504,741)
Total governmental activities	17,314,489	7,535	3,905,901	967,248	(12,433,805)	-	(12,433,805)
Business-type activities:							
Food Service	1,085,544	287,918	897,287	-	-	99,661	99,661
Total business-type activities	1,085,544	287,918	897,287	-	-	99,661	99,661
Total primary government	\$ 18,400,033	\$ 295,453	\$ 4,803,188	\$ 967,248	\$ (12,433,805)	\$ 99,661	\$ (12,334,144)
General revenues:							
Taxes:							
Property taxes					\$ 1,317,929	\$ -	\$ 1,317,929
Motor vehicle taxes					260,263	-	260,263
Utility Taxes					324,384	-	324,384
State grants					9,867,953	-	9,867,953
Investment earnings					47,680	450	48,130
Miscellaneous					63,995	-	63,995
Total general revenues, special items, and transfers					11,882,204	450	11,882,654
Change in net assets					(551,601)	100,111	(451,490)
Net assets - beginning					2,640,466	200,039	2,840,505
Net assets - ending					\$ 2,088,865	\$ 300,150	\$ 2,694,015

See independent auditors' report and accompanying notes to financial statements.

**Lewis County School District
Balance Sheet
Governmental Funds
June 30, 2003**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 666,652	\$ -	\$ 16,004	\$ 682,656
Accounts receivable				
Taxes	50,808	-	-	50,808
Intergovernmental - state	-	706,102	-	706,102
Due from other funds	254,936	-	-	254,936
Total assets	<u>972,396</u>	<u>706,102</u>	<u>16,004</u>	<u>1,694,502</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	59,199	11,642	-	70,841
Due to other funds	-	254,936	-	254,936
Deferred revenue	-	439,524	-	439,524
Current portion of accumulated sick leave	221,065	-	-	221,065
Total liabilities	<u>280,264</u>	<u>706,102</u>	<u>-</u>	<u>986,366</u>
Fund balances:				
Reserved for:				
Encumbrances	37,883	-	-	37,883
Unreserved	654,249	-	-	654,249
Unreserved, reported in non-major:				
Capital projects funds	-	-	10,645	10,645
Debt service funds	-	-	5,359	5,359
Total fund balances	<u>692,132</u>	<u>-</u>	<u>16,004</u>	<u>708,136</u>
Total liabilities and fund balances	<u>\$ 972,396</u>	<u>\$ 706,102</u>	<u>\$ 16,004</u>	<u>\$ 1,694,502</u>

See independent auditors' report and accompanying notes to financial statements

Lewis County School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of
Net Assets
June 30, 2003

Total fund balance, governmental funds	\$ 708,136
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	12,459,597
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	7,933
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Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(11,086,801)
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Net Assets of Governmental Activities in the Statement of Net Assets	<hr/> <u>\$ 2,088,865</u>
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Lewis County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
From local sources				
Taxes				
Property	\$ 1,117,929	\$ -	\$ 200,000	\$ 1,317,929
Motor vehicle	260,263	-	-	260,263
Utilities	324,384	-	-	324,384
Earnings on investments	47,543	-	137	47,680
Other local revenues	23,045	-	-	23,045
Intergovernmental - state	9,112,927	1,481,852	967,248	11,562,027
Intergovernmental - indirect federal	-	2,123,070	-	2,123,070
Intergovernmental - direct federal	6,280	49,829	-	56,109
Total revenues	<u>10,892,371</u>	<u>3,654,751</u>	<u>1,167,385</u>	<u>15,714,507</u>
EXPENDITURES				
Instruction	5,949,824	2,970,811	-	8,920,635
Support Services:				
Student	571,356	-	-	571,356
Instructional staff	262,163	1,159	-	263,322
District administration	696,985	118,764	-	815,749
School administration	784,247	265,538	-	1,049,785
Business	101,047	-	-	101,047
Plant operations and maintenance	1,189,323	23,025	-	1,212,348
Student transportation	1,214,725	-	-	1,214,725
Central office	89,153	-	-	89,153
Community operations	-	270,970	-	270,970
Non-instructional	283	-	-	283
Facilities acquisition and construction	490,745	-	338,480	829,225
Other	-	-	1,101,691	1,101,691
Total Expenditures	<u>11,349,851</u>	<u>3,650,267</u>	<u>1,440,171</u>	<u>16,440,289</u>
Excess (deficiency) of revenues over expenditures	<u>(457,480)</u>	<u>4,484</u>	<u>(272,786)</u>	<u>(725,782)</u>
OTHER FINANCING SOURCES (USES)				
Other source	1,355	-	-	1,355
Other use	-	-	-	-
Transfers in	240	17,516	755,842	773,598
Transfers out	(126,612)	(22,000)	(624,746)	(773,358)
Total other financing sources and uses	<u>(125,017)</u>	<u>(4,484)</u>	<u>131,096</u>	<u>1,595</u>
Net change in fund balances	<u>(582,497)</u>	<u>-</u>	<u>(141,690)</u>	<u>(724,187)</u>
Fund balances, July 1, 2002 as originally stated	1,541,954	-	157,694	1,699,648
Prior period adjustment	<u>(267,324)</u>	<u>-</u>	<u>-</u>	<u>(267,324)</u>
Fund balances - beginning	1,274,629	-	157,694	1,432,323
Fund balances - ending	<u>\$ 692,132</u>	<u>\$ -</u>	<u>\$ 16,004</u>	<u>\$ 708,136</u>

See independent auditors' report and accompanying notes to financial statements.

Lewis County School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Net change in fund balances - total governmental funds:	\$	(724,187)
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays exceeded depreciation in the current period.		(671,820)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets		788,226
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds		6,623
Long term portion on compensated absences		49,557

Change in net assets of governmental activities	\$	<u>(551,601)</u>
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**Lewis County School District
Budget and Actual (with Variances)
General Fund
For the year ended June 30, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ 1,129,699	\$ 1,129,699	\$ 1,117,929	\$ (11,770)
Motor vehicle taxes	200,000	200,000	260,263	60,263
Utility taxes	338,000	338,000	324,384	(13,616)
Other local revenues	8,000	8,000	23,045	15,045
Intergovernmental - state	9,160,067	9,160,067	9,112,927	(47,140)
Intergovernmental - direct federal	-	-	6,280	6,280
Investment earnings	120,000	120,000	47,543	(72,457)
Total revenues	<u>10,955,766</u>	<u>10,955,766</u>	<u>10,892,371</u>	<u>(63,395)</u>
EXPENDITURES				
Current:				
Instruction	6,007,340	6,055,425	5,949,824	105,601
Support Services				
Student	582,778	582,778	571,356	11,422
Instructional staff	304,342	297,359	262,163	35,196
District administration	1,271,375	1,258,692	696,985	561,707
School administration	825,485	796,577	784,247	12,330
Business	102,870	102,870	101,047	1,823
Plant operations and maintenance	1,209,228	1,209,228	1,189,323	19,905
Student transportation	1,292,482	1,292,484	1,214,725	77,759
Central office	89,879	89,879	89,153	726
Non-instructional	-	-	283	(283)
Facilities acquisition and construction	245,357	245,357	490,745	(245,388)
Total Expenditures	<u>11,931,136</u>	<u>11,930,649</u>	<u>11,349,851</u>	<u>580,798</u>
Excess (deficiency) of revenues over expenditures	<u>(975,370)</u>	<u>(974,883)</u>	<u>(457,480)</u>	<u>517,403</u>
OTHER FINANCING SOURCES (USES)				
Other sources	-	-	1,355	1,355
Transfers in	-	-	240	240
Transfers out	(129,513)	(130,000)	(126,612)	3,388
Total other financing sources and uses	<u>(129,513)</u>	<u>(130,000)</u>	<u>(125,017)</u>	<u>4,983</u>
Net change in fund balances	(1,104,883)	(1,104,883)	(582,497)	522,386
Fund balance, July 1, 2002, as originally stated	1,104,883	1,104,883	1,541,954	437,071
Prior period adjustment	-	-	(267,324)	(267,324)
Fund balances - beginning	<u>1,104,883</u>	<u>1,104,883</u>	<u>1,274,630</u>	<u>169,747</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 692,133</u>	<u>\$ 692,133</u>

See independent auditors' report and accompanying notes to financial statements.

Lewis County School District
Budget and Actual (with Variances)
Special Revenue Fund
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Motor vehicle taxes	-	-	-	-
Utility taxes	-	-	-	-
Other local revenues	-	-	-	-
Intergovernmental - state	516,882	1,545,271	1,481,852	(63,419)
Intergovernmental - indirect federal	1,973,747	2,122,455	2,123,070	615
Intergovernmental - direct federal	-	-	49,829	49,829
Investment earnings	-	-	-	-
Total revenues	<u>2,490,629</u>	<u>3,667,726</u>	<u>3,654,751</u>	<u>(12,975)</u>
EXPENDITURES				
Current:				
Instruction	2,316,758	2,730,873	2,970,811	(239,938)
Support Services				
Student	-	3,327	-	3,327
Instructional staff	935	134	1,159	(1,025)
District administration	-	124,073	118,764	5,309
School administration	246,455	398,313	265,538	132,775
Business	17	-	-	-
Plant operations and maintenance	-	23,067	23,025	42
Student transportation	1,341	1,341	-	1,341
Central office	-	-	-	-
Community operations	-	-	270,970	(270,970)
Non-instructional	-	-	-	-
Total Expenditures	<u>2,565,506</u>	<u>3,281,128</u>	<u>3,650,267</u>	<u>(369,139)</u>
Excess (deficiency) of revenues over expenditures	<u>(74,877)</u>	<u>386,598</u>	<u>4,484</u>	<u>(382,114)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	74,877	77,000	17,516	59,484
Transfers out	-	(22,000)	(22,000)	-
Total other financing sources and uses	<u>74,877</u>	<u>55,000</u>	<u>(4,484)</u>	<u>59,484</u>
Net change in fund balances	-	441,598	-	441,598
Fund balance, July1, 2002, as originally stated	-	648,553	-	648,553
Prior period adjustment	-	-	-	-
Fund balances - beginning	-	648,553	-	648,553
Fund balances - ending	<u>\$ -</u>	<u>\$ 1,090,151</u>	<u>\$ -</u>	<u>\$ 1,090,151</u>

See independent auditors' report and accompanying notes to financial statements.

**Lewis County School District
Statement of Net Assets
Proprietary Funds
June 30, 2003**

	<u>Enterprise Fund</u>
	<u>Food Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 181,572
Accounts Receivable	
Intergovernmental - state	13,747
Inventories	29,524
Total current assets	<u>224,843</u>
Non-current assets:	
Capital Assets	367,517
Less Accumulated depreciation	<u>(277,997)</u>
Total non-current assets	<u>89,520</u>
Total assets	<u><u>314,363</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	14,213
Total liabilities	<u><u>14,213</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	89,520
Reserved for encumbrances	650
Unrestricted	209,980
Total net assets	<u><u>\$ 300,150</u></u>

See independent auditors' report and accompanying notes to financial statements.

Lewis County School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2003

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
REVENUES	
Lunchroom sales	\$ 287,918
Total operating revenues	<u>287,918</u>
OPERATING EXPENSES	
Salaries and wages	490,007
Contractual services	15,380
Materials and supplies	513,653
Other operating expenses	1,365
Depreciation	23,099
Total Operating Expenses	<u>1,043,504</u>
Operating income (loss)	<u>(755,586)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest income	450
State grants	17,474
Federal grants	792,159
Donated commodities	45,854
Total non-operating revenue (expenses)	<u>855,937</u>
Income (loss) before contributions and transfers	<u>100,351</u>
Transfers out	<u>(240)</u>
Change in net assets	100,111
Total net assets - beginning	200,039
Total net assets - ending	<u><u>\$ 300,150</u></u>

See independent auditors' report and accompanying notes to financial statements.

Lewis County School District
Statement of Cash Flows
For the Year Ended June 30, 2003

	<u>Enterprise Fund</u>
	<u>Food Service Fund</u>
CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from:	
Lunchroom sales	\$ 667,504
Government grants	416,301
Other activities	-
Cash paid to/for:	
Employees	(490,007)
Supplies	(463,562)
Other activities	<u>(16,745)</u>
Net cash used for operating activities	113,491
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	<u>-</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating transfers	<u>(240)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>450</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,701
Balance, beginning of year	<u>67,871</u>
Balance, end of year	<u><u>\$ 181,572</u></u>
Reconciliation of operating income(loss) to net cash provided (used) by operating activities	
Operating Income	\$ 100,111
Adjustments to reconcile net income (loss) to cash used for operating activities:	
Depreciation	23,099
Interest	(450)
Transfers	240
Changes in assets and liabilities:	
Receivables	(13,746)
Inventories	(7,100)
Accounts payable	<u>11,337</u>
Net cash used for operating activities	<u><u>\$ 113,491</u></u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u><u>\$ 45,854</u></u>

See independent auditors' report and accompanying notes to financial statements.

Lewis County School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 101,967</u>
Total assets	<u>101,967</u>
LIABILITIES	
Due to student groups	<u>101,967</u>
Total liabilities	<u>101,967</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u>\$ -</u>

See independent auditors' report and accompanying notes to financial statements.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lewis County Board of Education ("Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Lewis County School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lewis County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Lewis County School District Finance Corporation - On November 10, 1989, the Lewis County, Kentucky, Board of Education resolved to authorize the establishment of the Lewis County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Lewis County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) Debt Service Funds are used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

II. Proprietary Fund Type (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*. The trust funds account for funds restricted for scholarship purposes.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenues from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the school year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end and reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2003. Accordingly, no

differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective fund. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras, and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory at cost, on the first-in, first-out basis, using the accrual basis of accounting.

Deferred Revenue

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenue until earned.

Property tax revenues and other governmental fund financial resource increments (i.e., bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period.

Budget

The District is required by state law to adopt annual budgets for the general fund, special revenue fund, capital outlay fund and the food service fund. Each budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business property located in the district.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE B - CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The governmental-wide financial statements split the District's programs between business-type governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE B – CHANGE IN ACCOUNTING PRINCIPLE - CONTINUED

The District made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability, and began accounting for technology fund revenues in the special revenue fund. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	General	Special Revenue	Nonmajor	Total
Fund Balance, June 30, 2002	\$ 1,541,954	\$ -	\$ 157,694	\$ 1,699,648
Record Beginning Accumulated Sick Leave	(267,324)	-	-	(267,324)
Adjusted Fund Balance, June 30, 2002	<u>\$ 1,274,630</u>	<u>\$ -</u>	<u>\$ 157,694</u>	<u>1,432,324</u>
GASB 34 Adjustments:				
Capital Assets -				
Net of Depreciation				12,916,302
Long-Term Liabilities				(10,899,092)
Accumulated Sick Leave - Long-Term Portion				(722,765)
Accrued Interest Payable				(86,303)
Governmental Activities				
Net Assets, June 30, 2002				<u>\$ 2,640,466</u>

The District also had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that either have not previously been recorded on the books or were no longer in service. Changes as a result of the GASB 34 implementation are as follows:

	Food Service	Non- Major	Total
Fund Balance, June 30, 2002	\$ 213,770	\$ -	\$ 213,770
Additional Fixed Assets	(13,731)	-	(13,731)
Adjusted Fund Balance, June 30, 2002	<u>\$ 200,039</u>	<u>\$ -</u>	<u>\$ 200,039</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE C - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D - CASH AND CASH EQUIVALENTS

At June 30, 2003, the carrying amount of the District's cash and cash equivalents was \$966,196 and the bank balance was \$2,614,396. Of the total cash balance, \$215,452 was covered by Federal Depository insurance, with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust departments in the district's name.

	Bank Balance	Book Balance
	<hr/>	<hr/>
Citizens Deposit Bank	\$ 1,555,352	\$ (91,878)
First Community Bank	1,059,044	1,058,074
	<hr/>	<hr/>
	\$ 2,614,396	\$ 966,196
	<hr/>	<hr/>
Governmental Funds		\$ 682,657
Proprietary Funds		181,572
Agency Funds		101,967
		<hr/>
		\$ 966,196
		<hr/>

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance			Balance
<u>Governmental Activities</u>	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land	\$ 1,217,141	\$ -	\$ -	\$ 1,217,141
Buildings and improvements	14,554,275	2,960	-	14,557,235
Technology equipment	2,007,528	79,289	-	2,086,817
Machinery and equipment	340,767	11,205	-	351,972
Vehicles	2,414,275	215,114	-	2,629,389
Totals at historical cost	<u>20,533,986</u>	<u>308,568</u>	<u>-</u>	<u>20,842,554</u>
Less: accumulated depreciation				
Land	277,206	50,979	-	328,185
Buildings and improvements	3,873,007	379,962	-	4,252,969
Technology equipment	1,519,337	206,300	-	1,725,637
Machinery and equipment	160,754	25,217	-	185,971
Vehicles	1,787,380	102,816	-	1,890,196
Total accumulated depreciation	<u>7,617,684</u>	<u>765,274</u>	<u>-</u>	<u>8,382,958</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 12,916,302</u>	<u>\$ (456,706)</u>	<u>\$ -</u>	<u>\$ 12,459,596</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 367,517	\$ -	\$ -	\$ 367,517
Less: accumulated depreciation				
Food service equipment	<u>254,898</u>	<u>23,099</u>	<u>-</u>	<u>277,997</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 112,619</u>	<u>\$ (23,099)</u>	<u>\$ -</u>	<u>\$ 89,520</u>

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the Districts future obligations to make lease payments relating to the bonds issued by the Lewis County School District Financial Corporation and the Kentucky School Construction Commission aggregating \$13,695,000.

The original amount of each issue, the issue date, and interest rates are summarized below:

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT - CONTINUED

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1987	\$ 1,710,000	4.25-7.00%
1992	1,640,000	3.25-6.10%
1995	1,530,000	3.90-5.20%
1997	835,000	4.20-5.40%
1998	2,265,000	3.65-4.50%
1999	3,075,000	4.50-5.50%
2001	2,640,000	4.00-4.90%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lewis County School District Financial Corporation and the Kentucky School Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The changes in the general long-term debt for the year ended June 30, 2003, were as follows:

	<u>Balance</u> <u>6/30/02</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/03</u>
1987 Issue	\$ 205,000	\$ -	\$ 165,000	\$ 40,000
1992 Issue	470,000	-	150,000	320,000
1995 Issue	1,250,000	-	55,000	1,195,000
1997 Issue	645,000	-	65,000	580,000
1998 Issue	1,620,000	-	170,000	1,450,000
1999 Issue	3,035,000	-	20,000	3,015,000
2001 Issue	2,635,000	-	5,000	2,630,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 9,860,000	\$ -	\$ 630,000	\$ 9,230,000

The District has entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the district, including amounts to be paid by the Commission, at June 30, 2003, for debt service (principal and interest) are as follows:

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT - CONTINUED

YEAR	LEWIS COUNTY SCHOOL DISTRICT		KY SCHOOL CONSTRUCTION COMMISSION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2004	338,673	348,139	251,327	92,539	1,030,678
2005	353,295	330,890	261,705	80,425	1,026,315
2006	357,746	315,729	192,254	69,426	935,155
2007	373,861	298,799	201,139	60,695	934,494
2008	392,264	281,241	207,736	51,556	932,797
2009	381,392	262,730	218,608	41,763	904,493
2010	402,343	244,458	177,657	32,719	857,177
2011	422,892	225,114	122,108	25,692	795,806
2012	392,526	205,554	62,474	21,139	681,693
2013	414,077	185,811	65,923	17,810	683,621
2014	430,227	164,769	69,773	14,267	679,036
2015	447,035	142,896	72,965	10,541	673,437
2016	476,629	119,674	68,371	6,832	671,506
2017	407,904	97,338	42,096	3,909	551,247
2018	428,203	75,953	11,797	1,629	517,582
2019	451,969	53,304	13,031	946	519,250
2020	474,320	29,396	10,680	294	514,690
2021	235,000	11,515	-	-	246,515
	<u>\$7,180,356</u>	<u>\$ 3,393,310</u>	<u>\$ 2,049,644</u>	<u>\$ 532,182</u>	<u>\$ 13,155,492</u>

NOTE G - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE H - INTERFUND TRANSFERS

Interfund transfers at June 30, 2003, consisted of the following:

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>PURPOSE</u>	<u>AMOUNT</u>
Operating	General	Special Revenue	Matching	\$ 17,516
Operating	Food Service	General	Indirect Costs	240
Operating	General	Debt Service	Bond Payments	109,096
Operating	Special Revenue	Debt Service	Bond Payments	22,000
Operating	Capital Projects	Debt Service	Bond Payments	624,746

NOTE I - CAPITAL LEASE PAYABLE

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2003:

Year ending June 30:	
2004	\$ 205,574
2005	186,777
2006	180,800
2007	176,823
2008	161,980
Thereafter	<u>383,262</u>
Total minimum lease payments	1,295,216
Less: Amount representing interest	<u>(191,314)</u>
Present value of net minimum lease payments	<u>\$ 1,103,902</u>

NOTE K - RETIREMENT PLANS

Kentucky Teachers Retirement System:

Plan Descriptions – The Lewis County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes statements and the required supplementary information for the defined benefit pension plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Rd., Frankfort, Kentucky 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of their salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that member of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE K - RETIREMENT PLANS - CONTINUED

The Lewis County School District's total payroll for the year was \$11,268,845. The payroll for employees covered under KTRS was \$8,293,427. The District's employees contributed \$817,317 to KTRS for the year ended June 30, 2003. The District paid \$165,262 from federal grant monies to KTRS in matching contributions for federally funded employees.

County Employee's Retirement System

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly.

Funding for the plan is provided through payroll withholdings of 5.000% and a district contribution of 6.40% of the employee's total compensation subject to contribution. The contribution requirement for CERS for the year ended June 30, 2003, was \$317,047 which consisted of \$177,256 from the district and \$139,791 from the employees.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter ParkWest, 1260 Louisville Rd., Frankfort, Kentucky, 40601, or by calling (502)-564-4646 or at their website at www.kyret.com.

NOTE L - CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantors review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the district for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the districts grant program is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE M - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicle accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance.

NOTE N - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance program for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

LEWIS COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE N - RISK MANAGEMENT- CONTINUED

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the district continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE O - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as “due from other funds” or “due to other funds” on the balance sheets.

SUPPLEMENTARY INFORMATION

**Lewis County School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003**

	<u>Capital Outlay</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ 10,645	\$ 5,359	\$ 16,004
Investments	-	-	-	-	-
Accounts receivable					
Taxes	-	-	-	-	-
Intergovernmental - state	-	-	-	-	-
Other	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories	-	-	-	-	-
Prepaid expenses	-	-	-	-	-
Total assets	<u>-</u>	<u>-</u>	<u>10,645</u>	<u>5,359</u>	<u>16,004</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Accrued payroll and related expenses	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	5,359	5,359
Other purposes	-	-	10,645	-	10,645
Unreserved	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>10,645</u>	<u>5,359</u>	<u>16,004</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,645</u>	<u>\$ 5,359</u>	<u>\$ 16,004</u>

Lewis County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	<u>Capital Outlay</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total-Other Governmental Funds</u>
REVENUES					
From local sources					
Taxes					
Property	\$ -	\$ 200,000	\$ -	\$ -	\$ 200,000
Motor vehicle	-	-	-	-	-
Utilities	-	-	-	-	-
Earnings on investments	-	-	-	137	137
Other local revenues	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental - state	218,950	402,449	-	345,849	967,248
Intergovernmental - indirect federal	-	-	-	-	-
Intergovernmental - direct federal	-	-	-	-	-
Total revenues	<u>218,950</u>	<u>602,449</u>	<u>-</u>	<u>345,986</u>	<u>1,167,385</u>
EXPENDITURES					
Instruction	-	-	-	-	-
Support Services:					
Student	-	-	-	-	-
Instructional staff	-	-	-	-	-
District administration	-	-	-	-	-
School administration	-	-	-	-	-
Business	-	-	-	-	-
Plant operations and maintenance	-	-	-	-	-
Student transportation	-	-	-	-	-
Central office	-	-	-	-	-
Community operations	-	-	-	-	-
Non-instructional	-	-	-	-	-
Facilities acquisition and construction	-	230,939	107,541	-	338,480
Other	-	-	-	1,101,691	1,101,691
Total Expenditures	<u>-</u>	<u>230,939</u>	<u>107,541</u>	<u>1,101,691</u>	<u>1,440,171</u>
Excess (deficiency) of revenues over expenditures	<u>218,950</u>	<u>371,510</u>	<u>(107,541)</u>	<u>(755,705)</u>	<u>(272,786)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt, net	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-
Other source	-	-	-	-	-
Other use	-	-	-	-	-
Transfers in	-	-	-	755,842	755,842
Transfers out	(218,950)	(405,796)	-	-	(624,746)
Total other financing sources and uses	<u>(218,950)</u>	<u>(405,796)</u>	<u>-</u>	<u>755,842</u>	<u>131,096</u>
Net change in fund balances	<u>-</u>	<u>(34,286)</u>	<u>(107,541)</u>	<u>137</u>	<u>(141,690)</u>
Fund balances - beginning	-	34,286	118,186	5,222	157,694
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,645</u>	<u>\$ 5,359</u>	<u>\$ 16,004</u>

Lewis County School District
Statement of Receipts, Disbursements and Fund Balances
School Activity Funds
For the Year Ended June 30, 2003

	Cash Balances June 30, 2002	Receipts	Disbursements	Cash Balances June 30, 2003
ACTIVITY FUNDS:				
Lewis County High School	\$ 26,897	\$ 205,980	\$ 202,109	\$ 30,768
Lewis County Middle School	6,141	47,375	43,442	10,074
Lewis County Central Elementary	10,445	46,670	45,748	11,367
Foster Meade Area Vocational	11,759	18,458	17,985	12,232
Garrison Elementary	19,826	31,555	38,122	13,259
Tollesboro Elementary	11,924	48,800	43,635	17,089
Laurel Elementary	7,151	18,690	18,663	7,178
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL SCHOOL ACTIVITY FUNDS	\$ 94,143	\$ 417,527	\$ 409,703	\$ 101,967
	<hr/>	<hr/>	<hr/>	<hr/>

Lewis County School District
Statement of Receipts, Disbursements and Fund Balances
School Activity Funds - Lewis County High School
For the Year Ended June 30, 2003

	Cash Balance July 1, 2002	Receipts	Disbursements	Cash Balance June 30, 2003
ACCOUNTS:				
Art	\$ 210	\$ 976	\$ 963	\$ 223
Academic Team	103	6	108	1
Band	1	2,958	2,753	206
Baseball	22	5,826	5,569	280
Basketball - Boys	3,910	24,875	27,766	1,019
Basketball - Girls	235	11,277	10,788	724
Beta Club	304	169	202	271
Champions Against Drugs	11	2,385	1,667	729
Cheerleaders - Boys	1,253	12,059	8,161	5,150
Cheerleaders - Girls	308	-	-	308
Chorus	1,658	933	1,565	1,026
Class of 2003 Seniors	2,374	1,031	2,897	507
Class of 2004 Juniors	1,074	7,144	7,100	1,118
Class of 2005 Sophomores	-	4,700	2,851	1,850
Class of 2006 Freshman	-	1,267	787	480
FCA	111	-	-	111
FFA	880	4,493	3,225	2,148
FHA	3,984	5,871	9,151	704
FFA Grant	752	-	631	121
Football	-	21,577	20,073	1,504
Boys Golf	459	1,122	1,202	379
Girls Golf	594	211	312	493
Historical Club	-	-	-	-
Journalism	216	-	-	216
KYA	204	3,034	3,229	9
Landscaping	163	-	-	163
Library	29	704	153	580
Office	641	5,425	6,048	19
Pride	174	634	-	808
Pulsar	1,088	46,756	47,843	1
ROTC	1,426	6,899	6,339	1,985
Scholarship Fund	-	1,000	1,000	-
Softball	448	6,304	6,214	538
Student Enhancement	212	17,499	17,137	574
Tennis	80	360	180	260
Track	14	2,679	2,465	228
Volleyball	1,361	2,386	1,991	1,756
Yearbook	1,092	1,329	85	2,336
Youth Service Center	1,506	2,093	1,656	1,943
TOTALS	\$ 26,897	\$ 205,980	\$ 202,109	\$ 30,768

Lewis County School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

FEDERAL GRANTOR/PASS THROUGH GRANT/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR NUMBER	PROGRAM EXPENDITURES
UNITED STATES DEPARTMENT OF AGRICULTURE			
Passed through Kentucky Department of Education:			
SCHOOL FOOD SERVICE PROGRAM, NSLP COMBINED	10.555	0575-02-02	\$ 121,038
SCHOOL FOOD SERVICE PROGRAM, NSLP COMBINED	10.555	0575-03-02	381,185
SCHOOL FOOD SERVICE PROGRAM, SCHOOL LUNCH	10.555	0575-03-08	17,474
SCHOOL FOOD SERVICE PROGRAM, SCHOOL BREAKFAST	10.553	0576-03-05	139,854
SCHOOL FOOD SERVICE PROGRAM, SCHOOL BREAKFAST	10.553	0576-02-05	51,688
SCHOOL FOOD SERVICE PROGRAM, SUMMER MEALS	10.559	0569-02-24	1,518
SCHOOL FOOD SERVICE PROGRAM, SUMMER MEALS	10.559	0574-02-23	14,740
COMMODITIES PROGRAM	NA	NA	45,854
TOTAL U.S. DEPARTMENT OF AGRICULTURE			773,351
UNITED STATES DEPARTMENT OF EDUCATION			
Passed through Kentucky Department of Education:			
TECHNOLOGY LITERACY CHALLENGE	84.318	0736-03-02	5,463
TECHNOLOGY LITERACY CHALLENGE	84.318	0736-02-02	1,817
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318X	0736-03-02	14,972
IDEA-B - BASIC/SLIVER AWARD	84.027	0581-02-02	1,052
IDEA-B - BASIC/SLIVER AWARD	84.027	0581-03-02	307,047
PERKINS TITLE I, PART C - VOCATIONAL	84.048	0462-01-32	801
PERKINS TITLE I, PART C - VOCATIONAL	84.048	0462-02-32	358
PERKINS TITLE I, PART C - VOCATIONAL	84.048	0462-03-32	34,759
TITLE I, PART A - INSTRUCTION	84.010	0351-02-01	109,980
TITLE I, PART A - INSTRUCTION	84.010	0351-02-01	818,787
EARLY CHILDHOOD GRANT	84.173	0587-01-02	3,484
EARLY CHILDHOOD GRANT	84.173	0587-03-02	11,229
TITLE IV SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES	84.186	0590-01-02	4,906
TITLE IV SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES	84.186	0590-03-02	19,812
TECH PREP	84.243	0552-02-00	20,823
TITLE II, PART A - TEACHER AND PRINCIPAL TRAINING	84.367A	0710-03-02	221,923
TITLE V - INNOVATIVE PROGRAMS	84.298A	0533-03-02	14,839
TITLE I, PART C - MIGRANT EDUCATION	84.011A	0352-02-02	27,413
TITLE I, PART C - MIGRANT EDUCATION	84.011A	0352-03-02	74,523
TITLE I - ACCOUNTABILITY GRANT FOR SCHOOL IMPROVEMENT	84.348	0352-01-00	54,250
21ST CENTURY COMMUNITY LEARNING CENTERS	84.287	0744-03-03	23,557
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	0355-01-02	21,908
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	0355-02-02	27,104
RURAL EDUCATION ACHIEVEMENT PROGRAM	84.358A	0350-03-02	49,330
SCHOOL TO WORK - GEAR UP	84.334A	NA	2,069
SCHOOL TO WORK - GEAR UP	84.334A	NA	19,333
TOTAL U.S. DEPARTMENT OF EDUCATION			1,891,539
U.S. DEPARTMENT OF DEFENSE			
Direct Program:			
ROTC	N/A	N/A	49,829
U.S. DEPARTMENT OF LABOR			
Passed through Buffalo Trace Area Development District:			
WORKFORCE INVESTMENT ACT	17.255	FY02-1282	127,588
NATIONAL SCIENCE FOUNDATION			
Direct Program:			
EDUCATION AND HUMAN RESOURCES	47.076	N/A	56,779
APPALACHIAN RURAL SYSTEMATIC GRANT	47.076	N/A	14,737
TOTAL NATIONAL SCIENCE FOUNDATION			71,516
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Lewis County Health Department			
POSTPONING SEXUAL INVOLVEMENT	93.994	03-168-270-01	14,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,927,823

The accompanying Notes to Schedule of Expenditures of Federal Awards
are an integral part of this statement.

Lewis County School District
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the District's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Lewis County School District
Vanceburg, Kentucky

We have audited the financial statements of the Lewis County School District (District) as of and for the year ended June 30, 2003, and have issued our report thereon dated August 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the *Independent Auditors' Contract-General Audit Requirements* and Appendix II to the *Independent Auditors' Contract-State Audit Requirements*.

Compliance

As part of obtaining reasonable assurance about whether the district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion of compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, the results of our tests disclosed one instance of noncompliance of specific state statements or regulations identified in Appendix II of the *Independent Auditors' Contract-State Audit Requirements* which is described in the accompanying schedule of findings and questioned costs as item 03-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and management of the District, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Reynolds & Company
Certified Public Accountants

Portsmouth, Ohio
August 18, 2003

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Lewis County School District
Vanceburg, Kentucky

Compliance

We have audited the compliance of the Lewis County School District (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board and management of the District, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Reynolds & Company
Certified Public Accountants

Portsmouth, Ohio
August 18, 2003

LEWIS COUNTY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

A. SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the general purpose financial statements.
2. The audit of the general purpose financial statements of Lewis County School District as of and for the year ended June 30, 2003, disclosed one internal control related reportable condition.
3. The audit did not disclose any noncompliance which is material to the general purpose financial statements of the Lewis County School District as of and for the year ended June 30, 2003.
4. There were no reportable conditions in internal control over major programs.
5. An unqualified opinion was issued on compliance over major programs.
6. The audit did not disclose any audit findings and questioned costs related to federal awards for the year ended June 30, 2003.
7. The programs tested as major programs included: National School Lunch Program CFDA #10.555, Title I CFDA #84.010, IDEA-B CFDA #84.027.
8. The dollar threshold used for distinguishing Types A and B programs was \$300,000.
9. The Lewis County School District did not qualify as a low-risk auditee under OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

03-1 Activity Fund Controls

Condition: Several activity fund receipts lacked proper supporting documentation.

Criteria: Proper internal control procedures require that all receipts must have supporting documentation to support all transactions.

Effect: Improper controls over revenues in the activity fund could lead to the misappropriation of trust funds.

Recommendation: We recommend that the board review the procedures and controls for maintaining activity funds with the principal of each school and that the Board more closely monitor the monthly reporting of the activity funds.

C. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

1. None

LEWIS COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

- 02-01 Condition: Checks can be written to a name different from the vendor of record as shown on the payment registers.
- Status of condition: The District has developed written procedures and enforced the controls necessary to prevent this from being an internal control problem.

LEWIS COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2003

Kentucky Department of Education
Frankfort, Kentucky

Lewis County School District respectfully submits the following corrective action plan for the year ended June 30, 2003.

Name and address of independent
Accounting firm:

Reynolds & Company
P.O. Box 1364
839 Gallia Street
Portsmouth, OH 45662

Audit Period: For the Year Ended June 30, 2003

The findings from the June 30, 2003 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

03-1 Activity Fund Controls

Condition: Several activity fund receipts lacked proper supporting documentation.

Criteria: Proper internal control procedures require that all receipts must have supporting documentation to support all transactions.

Effect: Improper controls over revenues in the activity fund could lead to the misappropriation of trust funds.

Recommendation: We recommend that the board review the procedures and controls for maintaining activity funds with the principal of each school and that the Board more closely monitor the monthly reporting of the activity funds.

Action taken: The Board will reinforce the controls to be maintained on activity funds with the school principals and will closely monitor the monthly reports.

If the Kentucky Department of Education has questions regarding this plan, please call Maurice Reeder, Superintendent at 606-796-2811.

Sincerely,

Maurice Reeder, Superintendent
Lewis County Schools